

**PUBLIC DISCLOSURE**

**September 17, 2013**

**COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

**READING CO-OPERATIVE BANK**

**Certificate #26620**

**180 HAVEN STREET  
READING, MASSACHUSETTS 01867**

**Division of Banks  
1000 Washington Street, 10<sup>th</sup> Floor  
Boston, MA 02118**

<p><b>NOTE:</b> This document is an evaluation of the institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with safe and sound operations of the institution. This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion or opinion of the Division of Banks concerning the safety and soundness of this financial institution.</p>
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## GENERAL INFORMATION

The Community Reinvestment Act (CRA) requires the Massachusetts Division of Banks (Division) to use its authority when examining financial institutions subject to its supervision, to assess the institution's record of meeting the needs of its entire assessment area, including low- and moderate-income neighborhoods, consistent with safe and sound operation of the institution. Upon conclusion of such examination, the Division must prepare a written evaluation of the institution's record of meeting the credit needs of its assessment area.

This document is an evaluation of the CRA performance of **Reading Co-operative Bank (or the "Bank")**, prepared by the Division, the institution's supervisory agency as of **September 17, 2013**. The Division evaluates performance in the assessment area(s), as they are defined by the institution, rather than individual branches. This assessment area evaluation may include visits to some, but not necessarily all of the institution's branches. The Division rates the CRA performance of an institution consistent with the provisions set forth in the Division's regulation 209 CMR 46.00.

### **INSTITUTION'S CRA RATING: This institution is rated "Satisfactory."**

An institution in this group has an adequate record of helping to meet the credit needs of its assessment area, including low- and moderate-income neighborhoods, in a manner consistent with its resources and capabilities.

The assigned rating is based on the results of two performance tests: the Lending Test and the Community Development Test. The Bank's performance under each of these two tests is summarized below:

#### **Lending Test**

The institution is rated "**Satisfactory**" under the Lending Test. This rating is supported by the following summary of results.

#### ***Loan-to-Deposit Ratio***

The loan-to-deposit (LTD) ratio is reasonable (considering seasonal variations and taking into account lending-related activities) given the institution's size, financial condition, and assessment area credit needs. The Bank's average net LTD ratio over the 8 quarters since the prior CRA evaluation was 78.3 percent.

#### ***Assessment Area Concentration***

A majority of the Bank's home mortgage and small business loans, by number and dollar amount, were within its designated assessment area. Throughout 2012 and the first two quarters (year-to-date) of 2013, 71.3 percent of the number of home mortgage loans, and 76.5 percent of the number of small business loans were made inside the assessment area.

#### ***Geographic Distribution***

Overall, the geographic distribution of loans reflects reasonable dispersion throughout the assessment area. The Bank made a reasonable percentage of home mortgage loans and small business loans to low- and moderate-income (LMI) census tracts.

### ***Borrower Characteristics***

The distribution of borrowers reflects, given the demographics of the assessment area, reasonable penetration among individuals of different income levels (including low- and moderate-income), and businesses of different revenue sizes. The Bank exceeded the aggregate market in percentage of home mortgage loans to low- and moderate-income borrowers in 2012. A majority of its small business loans were made to assessment area businesses with revenues of \$1 million or less.

### ***Response to Complaints***

Reading Co-operative Bank did not receive any CRA-related complaints during the period reviewed.

### **Community Development Test**

The institution is rated “**Satisfactory**” under the Community Development Test.

The institution demonstrated adequate responsiveness to community development needs in its assessment area through community development loans, qualified investments, and community development services, considering the institution’s capacity and the need and availability of such opportunities for community development throughout the institution’s assessment area. The rating is supported by the following factors.

#### ***Community Development Loans***

The Bank’s community development lending activity is adequate. The Bank made three qualified community development loans totaling \$530,000 during the evaluation period. These loans had the primary purpose of promoting economic development in the area by financing small businesses.

#### ***Community Development Investments***

The level of qualified investments is adequate. The Bank made approximately \$62,108 in qualified charitable donations during the review period. Donations primarily assisted organizations which provide community services targeted to low- and moderate- income individuals.

#### ***Community Development Services***

The Bank provided an adequate level of community development services throughout the evaluation period, including involvement in various community development organizations that provide services to low- and moderate-income individuals.

## **SCOPE OF THE EXAMINATION**

This evaluation assesses Reading Co-operative Bank’s CRA performance utilizing the interagency intermediate small bank (ISB) examination procedures, as established by the Federal Financial Institutions Examination Council. These procedures require two performance tests: the Lending Test and the Community Development Test. The Lending Test analyzes an institution’s applicable home mortgage, small business, and small farm loans during a certain review period. The Community Development Test is an analysis of qualified activities (loans, investments, and services) an institution performed to meet the needs of the community since the previous evaluation.

The Lending Test considered the Bank's home mortgage and small business lending. The Bank's most recent Report of Condition and Income (Call Report), dated June 30, 2013, indicated residential lending, including all loans secured by 1-4 family and multi-family residential properties, represented 62.1 percent of the loan portfolio. Commercial lending, consisting of commercial real estate and commercial and industrial loans, represented 27.8 percent of the loan portfolio. Therefore, the Bank's performance in home mortgage lending carried greater weight in the Lending Test. The Bank made no small farm loans; thus, this product line was not analyzed.

Data reviewed includes all originated home mortgage loans reported on the Bank's Home Mortgage Disclosure Act (HMDA) loan application registers (LARs) for 2012 and year-to-date (YTD) 2013. The LARs contain data about home purchase and home improvement loans, including refinances of 1-4 family and multi-family properties. The Bank reported 332 loans totaling \$92.0 million in 2012 and 131 loans totaling \$36.3 million in YTD 2013. The Bank's home mortgage lending performance was compared against 2012 aggregate lending data. Aggregate data includes the lending activity of all institutions subject to HMDA reporting within the Bank's assessment area.

Small business loans were also reviewed for the same period. As an ISB, the Bank has the option of collecting and reporting small business lending data. The Bank opted to collect, but not report, the data. The Bank's internal records indicated the institution originated 14 small business loans totaling \$1.8 million in 2012, and 20 small business loans totaling \$2.7 million in YTD 2013. As the Bank is not required to report small business loan data, small business aggregate data was not used for formal comparison purposes. Instead, business demographics of the assessment area were used to measure the Bank's performance.

While the Lending Test discusses the total dollar amounts of loans, conclusions are primarily based on the Bank's lending performance by the number of loans originated or purchased. The number of loans correlates more closely with the number of individuals or businesses that obtained loans. Extremely large or small dollar loans could skew conclusions. Demographic information referenced in this evaluation was obtained from the 2010 United States (U.S.) Census, unless otherwise noted. Financial data was generally obtained from the June 30, 2013 Call Report.

The Community Development Test considered the number and dollar amount of community development loans, qualified investments, and community development services between September 12, 2011 and September 17, 2013.

The prior CRA evaluation was conducted by the Division as of September 12, 2011, using ISB procedures. The evaluation resulted in an overall rating of "Satisfactory."

## PERFORMANCE CONTEXT

### Description of Institution

Reading Co-operative Bank is a state chartered co-operative bank located in Middlesex County. The Bank was established in 1886. The Bank's main office is located at 180 Haven Street in Reading, Massachusetts. The Bank has seven additional branches located in Andover, Burlington, North Reading, Reading, Wilmington (2), and Woburn.

The Bank's headquarters, additional branch in Reading, and Andover branch are all located in upper-income census tracts. The Burlington, North Reading, Wilmington (2) and Woburn branches are located in middle-income census tracts.

As of the June 30, 2013, the Bank had total assets of \$358 million. Of the total assets, \$261.8 million or 73.1 percent were in the form of gross loans. The largest asset on the Bank's balance sheet is 1-4 family real estate loans secured by first liens, representing 58.9 percent of the Bank's loan portfolio. Refer to the following table for a breakdown of the loan portfolio composition. Table 1 illustrates the current distribution of the Bank's loan portfolio.

Table 1 – Loan Portfolio Distribution as of June 30, 2012		
Loan Type	Dollar Amount \$('000s)	Percent of Total Loans (%)
<b>Loans Secured by Real Estate</b>		
Construction, Land Development, and Other Land Loans	15,467	5.9
Revolving, Open-end Loans Secured by 1-4 Family Residential Properties and Extended Under Lines of Credit	5,702	2.2
Closed-end Loans Secured by 1-4 Family Residential Properties: Secured by 1st Liens	154,238	58.9
Closed-end Loans Secured by 1-4 Family Residential Properties: Secured by Jr. Liens	2,486	0.9
Secured by Multi-Family (5 or more) Residential Properties	190	0.1
Secured by Nonfarm Nonresidential Properties	64,656	24.7
<b>Loans to Finance Agricultural Production and Other Loans to Farmers</b>	0	0.0
<b>Commercial and Industrial</b>	8,076	3.1
<b>Consumer Loans</b>	11,016	4.2
<b>TOTAL LOANS</b>	261,831	<b>100.0</b>

Source: June 30, 2013 Call Report

As depicted in Table 1, the Bank's loans are primarily concentrated in residential real estate, followed by commercial real estate. No financial or legal impediments exist that would limit or impede the Bank's ability to meet the credit needs of the delineated assessment area.

### Description of Assessment Area

The CRA requires the designation of one or more assessment areas within which a financial institution's record of helping to meet the credit needs of its community will be evaluated. The Bank has one designated assessment area that conforms to CRA requirements as it consists of whole geographies, does not arbitrarily exclude low- or moderate-income areas, does not extend beyond state boundaries, and does not reflect illegal discrimination.

## Geographies

The Bank's assessment area includes 18 cities and towns: Andover, Lawrence, Lynnfield, Methuen, Middleton, North Andover (all in Essex County and the Peabody, MA Metropolitan Division #37764) as well as Bedford, Billerica, Burlington, Lexington, North Reading, Reading, Stoneham, Tewksbury, Wakefield, Wilmington, Winchester, and Woburn (all in Middlesex County and the Cambridge-Newton-Framingham, MA Metropolitan Division #15764).

The geographic distribution section of the Lending Test evaluates the distribution of loans by census tract income level, especially in those designated low- and moderate-income. Each census tract is assigned an income level based on the median family income (MFI) of the tract as compared to the MFI established for the MSA in which the tract is located. The four income levels are defined as follows:

Low-Income: Less than 50 percent of MFI

Moderate-Income: At least 50 percent but less than 80 percent of MFI

Middle-Income: At Least 80 percent but less than 120 percent of MFI

Upper-Income: 120 percent or greater of MFI

Based on 2010 U.S. Census data, there are 11 low-income tracts, 12 moderate-income tracts, 48 middle-income tracts, and 31 upper-income tracts. Table 2 contains pertinent demographic information concerning the assessment area.

Table 2 – Assessment Area Demographic Information					
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #
Geographies (Census Tracts)	102	10.8	11.8	47.1	30.4
Population by Geography	512,011	8.0	11.2	50.7	30.1
Owner-Occupied Housing by Geography	135,003	2.4	7.5	56.2	33.9
Businesses by Geography (2012)	30,846	5.2	6.3	54.3	34.1
Distribution of Families by Income Level	132,280	19.7	16.6	21.9	41.8
<b>Median Family Income (MFI)</b>	\$100,897	<b>Median Housing Value</b>		\$450,501	
<b>MD #15764 MFI, 2012</b>	\$106,400				
<b>MD #15764 MFI, 2013</b>	\$101,000				
<b>MD #37764 MFI, 2012</b>	\$87,300	<b>Unemployment Rate</b>		6.2 %	
<b>MD #37764 MFI, 2013</b>	\$83,500				
<b>Families Below Poverty Level</b>	5.7 %				

Source: 2010 U.S. Census, 2012 D&B Data, 2012 and 2013 HUD Estimated Median Family Incomes

## Median Family Income Levels

The analysis under the *Borrower Characteristics* section of the Lending Test is primarily based on the distribution of home mortgage loans to borrowers of different incomes, using the same four income levels defined in the previous section. The analysis utilizes income data from the 2010 U.S. Census that has been annually adjusted by the Department of Housing and Urban Development (HUD) for inflation and other economic events. The estimated 2012 and 2013 MFI figures for the Cambridge-Newton-Framingham, MA MSA-MD and Peabody, MA MSA-MD are listed in Table 2.

The analysis of the Bank's home mortgage lending also includes comparisons to the distribution of assessment area families by income level. Table 2 reveals there is a much higher representation of upper-income families compared to other income categories. Low and moderate-income families have the smallest representation at 19.7 and 16.6 percent, respectively.

Additionally, 5.7 percent of families are below the poverty level. This data suggests lending opportunities to low- and moderate-income families are limited.

### **Housing Characteristics**

Among other statistics, Table 2 also illustrates the distribution of owner-occupied housing units by census tract income level. The table shows that owner-occupied housing units in the assessment area are heavily concentrated in middle-income and upper-income census tracts. Only 2.4 percent of total owner-occupied units are in the low-income tracts. This limits opportunities to make home mortgage loans in low-income census tracts.

### **Unemployment Data**

State and county unemployment rates were obtained from the Bureau of Labor Statistics. The Massachusetts state unemployment rate was 6.7 percent in 2012. This marks a slight improvement from 2011, at which time the unemployment rate was 7.3. The Essex County unemployment rate was 7.7 percent in 2011 and 7.1 percent in 2012. The Middlesex County unemployment rate was 5.8 percent in 2011 and 5.3 percent in 2012.

Municipal unemployment rates were obtained from the Massachusetts Executive Office of Labor and Workforce Development. According to data from August 2013, municipal rates range from a low of 4.4 percent in Winchester to a high of 14.9 percent in Lawrence.

### **Business Demographic Data**

According to Dun & Bradstreet (D&B) data, there were 30,846 non-farm businesses in the assessment area in 2012. Of total non-farm businesses 5.2 were in low-income census tracts, 6.3 percent were in moderate-income tracts, 54.3 percent were in middle-income tracts, and 34.1 percent were in upper-income tracts. In terms of revenues, 87.7 percent of businesses had gross annual revenues (GARs) of \$1.0 million or less; 9.0 percent had GARs greater than \$1.0 million; and 3.3 percent did not report GAR information.

### **Competition**

The Bank faces strong competition from other financial institutions that originated loans within the assessment area. These institutions range in size from small credit unions and mortgage companies to large national banks. The 2012 Peer Mortgage Data shows that 413 lenders originated 28,616 residential mortgage loans in the Bank's assessment area.

### **Community Contact**

As part of the evaluation process, third parties active in community affairs are contacted to assist in assessing the housing and general banking needs of the community. Relevant information obtained from such sources helps to determine whether local financial institutions are responsive to the credit and service needs of their communities and what further opportunities, if any, are available. For purposes of this evaluation, information provided by one such contact was referenced in preparing this evaluation.

An interview was conducted with a community development corporation located in the Bank's assessment area. This organization provides a number of services in the areas of asset building, community organizing, real estate development, and youth programming, primarily targeting the City of Lawrence and surrounding towns. The contact noted that one of the greatest needs in the area lie in the availability and quality of housing stock. The demand for affordable housing is increasing more quickly than the production of such units in the area. There is also a need for flexible products that allow individuals to rebuild their credit. Many borrowers are experiencing credit issues and do not have any means to get back on their feet. The contact stated that the



degree of involvement of local financial institutions is reasonable, as many institutions have increased their volunteering efforts and grant offerings in recent years. Additionally, banks in the area have adapted to the growing need for bilingual and culturally competent staff levels.

## CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS

### LENDING TEST

The Lending Test considers the institution's performance pursuant to the following criteria: LTD Ratio, Assessment Area Concentration, Borrower Characteristics, Geographic Distribution, and Response to CRA Complaints. Overall, the Bank's performance under the Lending Test is "Satisfactory." This rating indicates that the Bank's lending performance demonstrates a reasonable responsiveness to the credit needs of the assessment area.

#### Loan-to-Deposit Ratio

This performance criterion determines what percentage of the Bank's deposit base is reinvested in the form of loans and its reasonableness. The Bank's LTD ratio is reasonable, given the institution's size, financial condition, and assessment area credit needs. The Bank's average net LTD ratio over the 8 quarters since the previous CRA evaluation was 78.3 percent.

Growth patterns of loans and deposits were also analyzed to assess changes in the net LTD ratio over the course of the review period. Net loans (total loans net of unearned income and allowance for loan losses) generally increased during the review period. Net loans were reported the highest at \$261.8 million as of June 30, 2013, and the lowest at \$190.5 million as of December 31, 2011. Overall, net loans increased by 31.3 percent over the last 8 quarters. Total deposits also increased throughout the review period, resulting in growth of 30.2 percent. As a result of similar loan and deposit growth, the net LTD ratio at the end of the review period, 73.1 percent, was close to the net LTD ratio at the beginning of the review period, 72.5 percent.

For comparison purposes, the Bank's average net LTD ratio was compared against the average net LTD ratios of four similarly situated institutions (in terms of location and loan portfolio composition). Refer to Table 3 below for the similarly situated institutions' average net LTD comparison.

Table 3 – Loan-to-Deposit Comparison		
Bank Name	Total Assets \$(‘000s) as of 6/30/13	Average Net LTD Ratio
Northmark Bank	310,208	93.0
Stoneham Savings Bank	321,527	76.9
<b>Reading Co-operative Bank</b>	357,983	<b>78.3</b>
Winchester Savings Bank	508,792	72.8
Winchester Co-operative Bank	550,582	71.4

*Source: June 30, 2010 through June 30, 2013 Call Reports*

Additionally, the Bank sells a significant number of residential loans in the secondary market. According to Bank records, the Bank sold 131 loans totaling \$30.5 million from September 19, 2011 through September 17, 2013. Sold loans are not reflected in the net LTD ratio, which further supports that the Bank's performance is reasonable under this criterion.

## Assessment Area Concentration

This performance criterion evaluates whether the Bank is meeting the credit needs within its assessment area by evaluating the amount of lending conducted within the assessment area. The analysis includes both residential and small business lending. As stated previously, more weight was placed on residential lending performance based on the composition of the Bank's loan portfolio and the volume of loans generated within each product line. Table 4 portrays the Bank's record of originating loans inside and outside the assessment area during the review period.

<b>Table 4 – Distribution of Loans Inside and Outside of Assessment Area</b>										
<b>Loan Category or Type</b>	<b>Number of Loans</b>					<b>Dollar Volume</b>				
	<b>Inside</b>		<b>Outside</b>		<b>Total</b>	<b>Inside</b>		<b>Outside</b>		<b>Total</b>
	<b>#</b>	<b>%</b>	<b>#</b>	<b>%</b>		<b>\$ ('000s)</b>	<b>%</b>	<b>\$ ('000s)</b>	<b>%</b>	<b>\$('000s)</b>
<b>Home Mortgage Loans</b>										
<b>2012</b>										
Home Purchase	28	57.1	21	42.9	49	8,186	60.0	5,457	40.0	13,643
Refinance	164	75.2	54	24.8	218	43,583	68.9	19,591	31.0	63,174
Home Improvement	46	70.8	19	29.2	65	10,224	67.5	4,925	32.5	15,149
<b>Total</b>	<b>238</b>	<b>71.7</b>	<b>94</b>	<b>28.3</b>	<b>332</b>	<b>61,993</b>	<b>67.4</b>	<b>29,973</b>	<b>32.6</b>	<b>91,966</b>
<b>YTD 2013</b>										
Home Purchase	10	37.0	17	63.0	27	2,119	27.2	5,672	72.8	7,791
Refinance	56	76.7	17	23.3	73	15,525	77.5	4,521	22.6	20,046
Home Improvement	26	83.9	5	16.1	31	6,306	74.9	2,114	25.1	8,420
<b>Total</b>	<b>92</b>	<b>70.2</b>	<b>39</b>	<b>29.8</b>	<b>131</b>	<b>23,950</b>	<b>66.1</b>	<b>12,307</b>	<b>33.9</b>	<b>36,257</b>
<b>Total Home Mortgage</b>	<b>330</b>	<b>71.3</b>	<b>133</b>	<b>28.7</b>	<b>463</b>	<b>85,943</b>	<b>67.0</b>	<b>42,280</b>	<b>33.0</b>	<b>128,223</b>
<b>Small Business Loans</b>										
2012	12	85.7	2	14.3	14	1,272.1	72.5	482.5	27.5	1,754.6
YTD 2013	14	70.0	6	30.0	20	1,950.2	71.8	765	28.2	2,715.2
<b>Total Small Business</b>	<b>26</b>	<b>76.5</b>	<b>8</b>	<b>23.5</b>	<b>34</b>	<b>3,222.3</b>	<b>72.1</b>	<b>1,247.5</b>	<b>27.9</b>	<b>4,469.8</b>
<b>Grand Total</b>	<b>356</b>	<b>71.6</b>	<b>141</b>	<b>28.4</b>	<b>497</b>	<b>89,165.3</b>	<b>67.2</b>	<b>43,527.5</b>	<b>32.8</b>	<b>132,692.8</b>

Source: 2012 and YTD 2013 HMDA LARs and Bank Small Business Records

Overall, a majority of the Bank's residential and small business loans, by number and dollar amount, were inside the designated assessment area. As shown in Table 3, the Bank made 71.6 percent of its total loans, by number, and 67.2 percent, by dollar amount, inside the assessment area. The following sections detail the Bank's performance by loan type.

### ***Home Mortgage Lending***

Reading Co-operative Bank originated a majority of home mortgage loans inside its assessment area in 2012 and 2013 combined. During 2012, the Bank originated 71.7 percent of loans by number within the assessment area. For YTD 2013, the Bank's performance has remained similar.

### ***Small Business Lending***

Small business loan data was analyzed to determine the extent of small business lending within the assessment area. A majority of small business loans by number and dollar amount were made in the assessment area during the review period.

As shown in Table 4, the Bank made 12, or 85.7 percent, of total small business loans inside the assessment area in 2012. During the first two quarters of 2013, the Bank made 14, or 70.0 percent,

of its small business loans inside the assessment area. Although the percentage of loans inside the assessment area decreased from 2012 to 2013, the percentage by dollar amount remained similar. The total number and volume of small business loans was greater during the first two quarters of 2013 as compared to full-year 2012 data. Bank management attributed this increase in small business loan originations to a strategic shift towards building up the Bank's commercial loan portfolio. There has been a significant increase in branch resources devoted to originating small business loans since the previous CRA evaluation.

### **Geographic Distribution**

Overall, the geographic distribution of home mortgage and small business loans reflects reasonable dispersion throughout the assessment area. This conclusion was primarily based on the Bank's distribution of loans in LMI census tracts. The following sections discuss the Bank's performance under this criterion with regard to each product line.

#### ***Home Mortgage Lending***

The distribution of the Bank's home mortgage loans reflects reasonable dispersion throughout the assessment area. Table 5 presents the Bank's home mortgage lending performance by number of loans in 2012 and YTD 2013, as well as aggregate market data for 2012. Table 5 also includes the percentage of owner-occupied housing units for each census tract income level for comparison purposes.

<b>Table 5 – Distribution of Home Mortgage Loans by Census Tract Income Level</b>						
<b>Census Tract Income Level</b>	<b>% of Total Owner- Occupied Housing Units</b>	<b>2012 Aggregate Lending Data (% of #)</b>	<b>2012 Bank</b>		<b>YTD 2013 Bank</b>	
			<b>#</b>	<b>%</b>	<b>#</b>	<b>%</b>
<b>Low</b>	7.9	1.5	3	1.3	0	0
<b>Moderate</b>	11.5	4.2	3	1.3	1	1.1
<b>Middle</b>	51.3	52.4	130	54.6	48	52.2
<b>Upper</b>	29.3	41.9	102	42.8	43	46.7
<b>Total</b>	<b>100.0-</b>	<b>100.0</b>	<b>238</b>	<b>100.0</b>	<b>92</b>	<b>100.0</b>

*Source: 2010 U.S. Census Data; 2012 and YTD 2013 HMDA Data*

As revealed in Table 5, the Bank's ratio of loans in moderate-income tracts at 1.3 percent was similar to the aggregate performance at 1.5 percent. Both the Bank and aggregate market had ratios below the percentage of owner-occupied units. During the first two quarters of 2013, the Bank did not make any loans in low-income tracts. There are limited opportunities to makes loans in these tracts since they contain only 7.9 percent of owner occupied housing units in the area.

The Bank originated a lower percentage of loans in moderate-income tracts compared to the aggregate market in 2012. The Bank's performance was below demographic indicators as well, as 11.5 percent of owner occupied housing units were in moderate-income census tracts. The Bank performed similarly in YTD 2013 in terms of lending to moderate-income tracts. The majority of loans were made within middle- and upper-income census tracts, which is in line with the performance of aggregate lenders.

### ***Small Business Lending***

The geographic distribution of the Bank's small business loans reflects reasonable dispersion throughout the assessment area given the overall low level of lending of the Bank where a relatively minor increase in the volume of lending would result in a significant shift in the percentage of lending, and the positive trend exhibited. Additionally, because the Bank is not required to report its small business loan data, the comparison to the distribution of total businesses is not ideal and, in general, performance of the aggregate in lending in low- and moderate-income geographies tends to be lower than the percentage of small businesses present in those areas. Table 6 illustrates the Bank's small business lending activity in 2012 and YTD 2013, as well as the composition of businesses by census tract income level.

<b>Table 6 – Distribution of Small Business Loans by Census Tract Income Level</b>					
<b>Census Tract Income Level</b>	<b>2012 % of Total Businesses</b>	<b>2012 Bank</b>		<b>YTD 2013 Bank</b>	
		<b>#</b>	<b>%</b>	<b>#</b>	<b>%</b>
<b>Low</b>	5.1	0	0.0	1	7.1
<b>Moderate</b>	6.2	1	8.3	1	7.1
<b>Middle</b>	54.1	9	75.0	8	57.2
<b>Upper</b>	34.6	2	16.7	4	28.6
<b>Total</b>	<b>100.0</b>	<b>12</b>	<b>100.0</b>	<b>14</b>	<b>100.0</b>

*Source: 2012 D&B Business Data; 2012 and 2013 Bank Small Business Loan Records*

In 2012, the Bank did not make any small business loans in the low-income tracts. This performance was below the percentage of total businesses in low-income tracts (5.1 percent). The Bank's performance improved slightly during the first two quarters of 2013, as the Bank made one loan in low-income tracts.

With regard to lending in moderate-income census tracts, the Bank outperformed aggregate lenders in 2012. Overall, a majority of the Bank's loans were in middle- and upper-income census tracts, which is in line with aggregate lenders.

### **Borrower Characteristics**

Overall, the distribution of borrowers, given the demographics of the assessment area, reflects reasonable penetration among individuals of different income levels (including low- and moderate-income) and businesses of different revenue sizes. This conclusion was primarily based on Reading Co-operative Bank's reasonable distribution of home mortgage loans to LMI individuals and loans to businesses with GARs of \$1 million or less. The following sections discuss the Bank's performance by loan type.

### ***Home Mortgage Lending***

The distribution of the Bank's home mortgage loans is reasonable. Borrower incomes for loans reported in 2012 and YTD 2013 were compared to the HUD-adjusted Median Family Income (MFI) of the appropriate MSA or MD. Table 7 shows the Bank's loans by borrower income level in 2012 and 2013. Table 7 also includes the distribution of families by income level and aggregate market data for 2012.

<b>Table 7 – Distribution of Home Mortgage Loans by Borrower Income Level</b>						
<b>Income Level</b>	<b>% of Total Families</b>	<b>2012 Aggregate Lending Data (% of #)</b>	<b>2012 Bank</b>		<b>YTD 2013 Bank</b>	
			<b>#</b>	<b>%</b>	<b>#</b>	<b>%</b>
<b>Low</b>	7.0	5.4	18	7.6	6	6.5
<b>Moderate</b>	10.5	16.4	44	18.5	17	18.5
<b>Middle</b>	50.7	24.7	56	23.5	19	20.7
<b>Upper</b>	31.8	40.6	110	46.2	48	52.1
<b>Income NA</b>	0.0	12.8	10	4.2	2	2.2
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>238</b>	<b>100.0</b>	<b>127</b>	<b>100.0</b>

Source: 2010 U.S. Census Data; 2012 and 2013 HMDA Data

Reading Co-operative Bank's distribution of loans to low-income borrowers at 7.6 percent was above the aggregate lending data of 5.4 percent in 2012. The Bank also outperformed demographic indicators, as 7.0 percent of total families in the assessment area are low-income. The Bank's lending to low-income borrowers decreased slightly in YTD 2013, however it remained generally in line with demographic indicators.

The Bank's distribution of loans to moderate-income individuals at 18.5 percent was above the aggregate market at 16.4 percent and the percentage of moderate-income families at 10.5 percent in 2012. The Bank's performance remained similar in 2013.

### ***Small Business Lending***

The Bank's small business loans originated within the assessment area were analyzed to determine the distribution among businesses of various sizes. The distribution of the Bank's small business loans by Gross Annual Revenues (GAR) level is reasonable. Table 8 illustrates the Bank's small business loans, as well as business composition in the assessment area by GAR.

<b>Table 8 – Distribution of Small Business Loans by Gross Annual Revenues (GAR)</b>					
<b>GAR \$(000)</b>	<b>2012 % of Total Businesses</b>	<b>2012 Bank</b>		<b>YTD 2013 Bank</b>	
		<b>#</b>	<b>%</b>	<b>#</b>	<b>%</b>
≤ \$1,000	87.7	7	58.3	10	71.4
> \$1,000	9.0	5	41.7	4	28.6
Not Reported	3.3	0	0.0	0	0.0
<b>Total</b>	<b>100.0</b>	<b>12</b>	<b>100.0</b>	<b>14</b>	<b>100.0</b>

Source: 2012 D&B Business Data; 2012 and 2013 Bank Small Business Loan Records

In 2012, the Bank extended more than half of its small business loans (58.3 percent) to businesses with GARs of \$1 million or less. This performance was below the percentage of total businesses within the assessment area with GARs of \$1 million or less. The Bank's performance improved during the first two quarters of 2013, as 71.4 percent of loans were made to small businesses with GARs of \$1 million or less. Since the previous examination, the Bank has become involved with the Small Business Administration (SBA) 504 and 7(a) loan programs, as well as the Massachusetts Business Development Corporation Capital Access Program (MASSCAP) to better meet the needs of small businesses in the area. As the Bank's commercial lending area continues to grow,

management indicated further attention will be given to specifically targeting the credit needs of smaller business.

### **Response to CRA Complaints and Fair Lending**

Reading Co-operative Bank did not receive any CRA-related complaints during the evaluation period. It was noted that the Bank maintains adequate procedures to handle all incoming complaints, including those related to its CRA performance.

The Division of Banks provides comments regarding the institution's fair lending policies and procedures pursuant to Regulatory Bulletin 1.3-106.

Included in the Bank's Loan Policy are efforts to address the Equal Credit Opportunity Act, the Fair Housing Act, and the Home Mortgage Disclosure Act. Management develops training programs that cover all aspects of the lending process. The Bank has a second review process to ensure that denied applications are in no way the result of discriminatory practices.

Based upon the review of the Bank's public comment file and its performance relative to fair lending policies and practices, no violations of the anti-discrimination laws and regulations were identified.

### **MINORITY APPLICATION FLOW**

According to the 2010 U.S. Census Data, the Bank's assessment area contained a total population of 512,011 individuals of which 24.3 percent are minorities. The assessment areas minority and ethnic population is 14.8 percent Hispanic or Latino, 6.2 percent Asian/Pacific Islander, 1.8 percent Black/African American, 1.5 percent other race, and 0.1 percent American Indian/Alaskan Native.

For 2011, 2012, and YTD 2013 the Bank received 567 HMDA-reportable loan applications from within its assessment area. Of these applications, 9 or 1.6 percent were received from minority applicants, of which 6 or 66.7 percent resulted in originations. For the same time period, the Bank also received 11 applications from ethnic groups of Hispanic origin within its assessment area of which 8 or 72.7 percent were originated.

The Bank's level of lending was compared with the aggregate's lending performance levels for the most recent years for which data was available; the data used is from 2012. The comparison of this data assists in deriving reasonable expectations for the rate of applications the Bank received from minority residential loan applicants.

The Bank's performance was below the 2012 aggregate performance level for racial minority applicants. The Bank received 1.7 percent of its applications from minorities while the aggregate was higher at 9.6 percent. The Bank's performance was slightly below 2012 aggregate performance for ethnic minorities. In 2012 the Bank received 2.4 percent while the aggregate received 4.0 percent for ethnic minorities. Refer to the table below for information on the Bank's minority application flow as well as the aggregate lenders (excluding the Bank) in the Bank's assessment area.

<b>Table A1 – Minority Application Flow</b>					
<b>RACE</b>	Bank 2011		2012 Aggregate Data	Bank 2012	
	#	%	%	#	%
American Indian/ Alaska Native	0	0.0	0.1	2	0.7
Asian	1	0.7	7.4	1	0.3
Black/ African American	0	0.0	0.7	1	0.3
Hawaiian/Pac Isl.	0	0.0	0.1	0	0.0
2 or more Minority	0	0.0	0.1	0	0.0
Joint Race (White/Minority)	0	0.0	1.2	1	0.3
<b>Total Minority</b>	<b>1</b>	<b>0.7</b>	<b>9.6</b>	<b>5</b>	<b>1.7</b>
White	108	76.1	66.3	268	89.3
Race Not Available	33	23.2	24.1	27	9.0
<b>Total</b>	<b>142</b>	<b>100.0</b>	<b>100.0</b>	<b>300</b>	<b>100.0</b>
<b>ETHNICITY</b>					
Hispanic or Latino	7	4.9	3.3	5	1.7
Not Hispanic or Latino	101	71.1	71.8	258	86.0
Joint (Hisp/Lat /Not Hisp/Lat)	0	0.0	0.7	2	0.7
Ethnicity Not Available	34	23.9	24.2	35	11.7
<b>Total</b>	<b>142</b>	<b>100.0</b>	<b>100.0</b>	<b>300</b>	<b>100.0</b>

Source: 2011, 2012 and 2013 HMDA LAR, 2011 HMDA Aggregate Data

## COMMUNITY DEVELOPMENT TEST

Reading Co-operative Bank's community development performance demonstrates an adequate responsiveness to the community development needs of its assessment area through community development loans, qualified investments, and community development services as appropriate, considering the institution's capacity and the need and availability of such opportunities in the institution's assessment area.

### Qualified Community Development Loans

For the purpose of this evaluation, a community development loan is defined as a loan that: (1) has community development as its primary purpose, (2) has not already been reported by the bank for consideration under small business or home mortgage lending (unless it is a multifamily dwelling loan), and (3) benefits the bank's assessment area or a broader statewide or regional area that includes the bank's assessment area.

The level of Reading Co-operative Bank's community development lending is reasonable. The Bank originated three community development loans totaling approximately \$530,000 since the previous examination of September 12, 2011. These numbers represent 0.2 percent of the Bank's total loans and 0.2 percent of the Bank's total assets.

The Bank increased the dollar volume of community development lending by \$161,500 since the previous CRA evaluation. The following is a summary of the community development loans originated during this review period.

**Massachusetts Business Development Corporation Capital Access Program (MASSCAP)-** This program was established by the Commonwealth of Massachusetts. Administered by the Massachusetts Business Development Corporation, which acts as an agent of the Massachusetts



Office of Business Development, the program assists the Bank in making loans to small businesses that might not otherwise qualify under the Bank's standard underwriting guidelines. The Bank originated one loan in the assessment area totaling \$25,000 through this program.

**Small Business Administration (SBA) 504 program-** This program is predominantly used for the construction and/or acquisition of commercial real estate for businesses. During the period under review, the Bank made two loans totaling \$505,000 through this program.

### **Qualified Community Development Investments**

A qualified investment for the purposes of this evaluation is a lawful investment, deposit, membership share, or grant that has community development as its primary purpose. The evaluation considered (1) investment and grant activity, (2) the responsiveness to credit and community development needs, and (3) community development initiatives. The following describes the institution's qualified investments during this evaluation.

Total qualified investments for this evaluation period included grants and donations by the Bank and several were made through the Bank's Charitable Foundation. Since the previous examination, dated September 12 2011, the Bank made approximately \$62,108 in qualified grants and donations.

#### ***Charitable Donations***

Contributions were made to organizations providing education, youth programs, affordable housing, health and human services, and support to businesses for growth and development. From September 12, 2011, through September 17, 2013, Reading Co-operative Bank granted approximately \$154,625 in charitable donations to community organizations, of which approximately \$62,108, or 40.2 percent, was considered qualified under CRA for community development.

Examples of the qualifying organizations include, but are not limited to:

**Mission of Deeds-** The Mission of Deeds is a non-profit organization staffed by a group of volunteers who are located in Reading, Massachusetts. The organization purchases beds with cash donations and distributes them, along with donated furniture and other household items in good condition, to needy families and individuals living in Middlesex and Essex counties of Massachusetts.

**Mystic Valley Elder Services (MVES)-** The Bank's donation went towards establishing the MVES Gap Fund, a \$1 million dollar endowment to help at-risk older people in the region get the home- and community-based services they need to remain independent. There are many older people in the area who live on a fixed income and do not have enough money to privately pay for services; however they do meet government funded home- and community-based service guidelines. This fund will help meet the needs of local older adults who fall in the "gap" and have nowhere else to turn.

**Reading Food Pantry-** Located in the Old South Methodist Church in Reading, the pantry provides non-perishable food items and toiletries to families and individuals in need. Food is served to the needy twice a week. This pantry has been serving Reading families for over twenty years.

**Lazarus House Ministries-** This Lawrence based organization helps individuals living in poverty regain their dignity and become self-sufficient members of the community by offering emergency shelter, food and clothing to people in crisis, transitional housing, advocacy, health services, and work preparation to permanently break the cycle of poverty. In 2012, the food pantry alone had an average of 720 families that received food each week.

**Angel Flight Northeast-** This non-profit organization provides free air transportation to patients whose financial resources would not otherwise enable them to receive treatment or diagnosis. The organization is comprised of over 1,000 volunteer private pilots who fly patients and their families to the critical health care they need.

### **Qualified Community Development Services**

A community development service has community development as its primary purpose and is generally related to the provision of financial services. Reading Co-operative Bank demonstrated a reasonable responsiveness to the area's community development needs through qualified services. The Bank is currently involved in local services and non-profit entities which qualify as community development organizations, lending their financial expertise to these organizations.

#### ***Bank Employee and Director Involvement***

During the evaluation period, officers and employees of the Bank were involved in organizations in various capacities that represented a community development purpose. Bank personnel provided these organizations with financial expertise and served as directors, officers, loan committee members, and volunteers.

The following are examples of the Bank's participation with various organizations that benefited the assessment area.

**Woburn Council of Social Concern-** This community based agency responds to the basic needs of people of all ages. Services included childcare options, family skills building, and a food pantry. A Senior Vice President at the Bank serves as a member of the Board, Finance and Audit Committee, and as the Chair of Financial Planning and Development.

**Burbank YMCA-** This agency promotes healthy living, social responsibility, and youth development in a number of communities in the Greater Boston area, including the town of Woburn. It offers an emergency shelter program which works to help families become stabilized and self-sufficient. A Senior Vice President at the Bank serves as a member of the Board, as well as the Chair of the Youth Development Committee.

**VNA of Middlesex East-** This organization provides home health services to communities north and northwest of Boston. The VNA serves low- and moderate-income individuals and provides free care based on financial need. The President of the Bank serves as the President of the Board of this organization.

**Woburn Business Association-** The purpose of the Woburn Business Association is to promote and protect business interests in the City of Woburn and provide networking services for business community. Additionally, one of the goals of this organization is to improve the image of “Business” in the community by developing an awareness of residential and social concerns. A Senior Vice President of the Bank serves as the President of this organization.

### ***Financial Education and Outreach***

Throughout the evaluation period, Bank personnel and management participated in various education and outreach events that had community development as their primary purpose. The following illustrates examples of these community development activities.

#### **First-Time Homebuyer Seminars**

The Bank provided first-time homebuyer seminars in conjunction with Community Service Network in Stoneham, Massachusetts. For the period under review the Bank hosted four seminars. These seminars consisted of speakers who provided valuable information to those looking to become homeowners.

#### **Financial Literacy Presentations**

Reading Co-operative Bank employees made financial literacy presentations to a number of schools and social service agencies in the area, including Reading Memorial High School, Joshua Eaton Elementary School, Lazarus House, Bright Horizons, Club Triumph, and Burbank YMCA. These presentations touched on a number of topics specifically geared towards the audience in attendance, ranging from demonstrations of different coins and their values to discussions of stocks, bonds and Mutual Funds. The importance of saving money was a common theme in these presentations.

## **PERFORMANCE EVALUATION DISCLOSURE GUIDE**

Massachusetts General Laws Chapter 167, section 14, as amended, and the Uniform Interagency Community Reinvestment Act (CRA) Guidelines for Disclosure of Written Evaluations, and Part 345 of the Federal Deposit Insurance Corporation's Rules and Regulations, require all financial institutions to take the following actions within 30 business days of receipt of the CRA evaluation of their institution:

- 1) Make its most current CRA performance evaluation available to the public;
- 2) At a minimum, place the evaluation in the institution's CRA public file located at the head office and at a designated office in each assessment area;
- 3) Add the following language to the institution's required CRA public notice that is posted in each depository facility:

"You may obtain the public section of our most recent CRA Performance Evaluation, which was prepared by the Massachusetts Division of Banks at 180 Haven Street Reading, MA 01867."

- 4) Provide a copy of its current evaluation to the public, upon request. In connection with this, the institution is authorized to charge a fee which does not exceed the cost of reproduction and mailing (if applicable).

The format and content of the institution's evaluation, as prepared by its supervisory agencies, may not be altered or abridged in any manner. The institution is encouraged to include its response to the evaluation in its CRA public file.